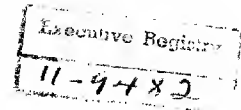


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NATIONAL ASSOCIATION OF MANUFACTURERS

64TH CONGRESS OF AMERICAN INDUSTRY

NEW YORK CITY

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Twelve years ago, on December 3, 1947, I had the honor
of addressing the 52nd Annual Congress of American Industry, held
by your Association. My subject on that occasion, as now, was,
the Soviet challenge. I then stated that this was a challenge to ^{the United States} us-
"to prove that the system of free men under law can survive." This
remains true today.

In 1947 the Soviet ^{were} Union ^{their} was basing its hopes -- not so much
on the economic and industrial might of their system, as on ^{their forecast} the
^{our} imminent collapse of free enterprise society.

Then it was Stalin, Molotov and Vishinsky who warned us
and told the world that our Marshall Plan was merely a means of
unloading excess commodities and capital to avoid an impending
American crisis.

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The old Soviet leaders have gone and so have gone many of their arguments. Their successors have largely abandoned the thesis of any early demise of capitalism, *due to its own defects.* Now they propose, over the years, to surpass us in total industrial output.

This is a boast which is not likely to be realized in the foreseeable future unless we "rest on our oars." What is of more immediate concern to us is the fact that they are using their growing industrial power, which is still less than one-half of our own, largely to promote their national power aims rather than to give a fuller life to their own citizens. We are doing just the opposite.

A decade ago Moscow was threatening us because we were giving aid overseas to meet the danger of economic breakdown and communist takeover in large parts of Europe. Now they propose to compete with us on a worldwide basis in the field of overseas aid and trade to win over the uncommitted nations of the world.

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Then, though they had an atomic power, the Soviet were using the threat of their great conventional forces to help undermine Greece and Turkey and then later to menace the Free World in Berlin and Korea.

Now they preach coexistence and economic and industrial competition with the West but still on occasions rattle the threat of ballistic missiles and bring Stalinists back into power in their uneasy satellites.

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As representatives of this 64th Congress of American Industry, you have a legitimate interest in what your most aggressive foreign competitor, the Sino-Soviet Bloc, is doing and planning. Today this is not ~~it~~ because this competitor is seriously threatening your domestic or even your foreign markets, ^{It is} but rather because the pattern of this competitor's conduct and the impact of the Bloc's

policies, both domestic and foreign, ^{will} may have an important effect on the future direction of American industry and of our economy.

A wise European remarked to me the other day that the danger of war, in his opinion, has receded, but that the dangers of communism had increased.

In saying this he had two major thoughts in mind:

First, that the military situation would fall into a kind of nuclear stalemate where the United States and its allies and the Sino-Soviet Bloc would each have a sufficient supply of nuclear weapons and the means of delivery to inflict unacceptable damage on the other. ||

Second that, under these conditions, the competition might shift, at least for a time, from the military to the political and economic sectors with the Free World and free enterprise competing for the uncommitted world against all forms of penetration by international communism. This is the more possible because

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Khrushchev, while he desires to inherit ^{the earth,} ~~he can.~~ Khrushchev

does not wish it to be a world devastated by nuclear weapons, --

also he thinks he is doing quite well as events are now developing.

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Is a military stalemate likely?

It does not require recourse to secret data to reach the

following conclusion: That in a short span of years, both the United States

and the Soviet Union will be equipped with a supply of nuclear weapons;

and with a means of delivery, whether by guided missiles or ~~conventional~~

aircraft, adequate to constitute a grave deterrent against the initiation

of war by either. The impact of this mutual growing capability is

already having its effect on the international scene.

However, for the deterrent to be wholly effective other conditions must be met; among them are the following:

(1) There must be no doubt in the minds either of the leaders in Moscow or Peiping that the initiation by them of a war or aggression using conventional weapons would be met with adequate force, including nuclear weapons.

(2) Regional strife among powers having no nuclear capabilities must be quarantined or limited. History has shown us small wars breed great wars and chain reactions with unforeseen consequences may result from them.

(3) The United States and its allies of the Free World must continue to maintain a military defensive and retaliatory power such that no increase in Sino-Soviet military power could lead the latter to believe that they had gained clear superiority over us.

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(4) We must make the strength of our military position and our readiness to use it against communist aggression so clear that there can be no misunderstanding on the part of the Soviet. Some wars have come from vicious intent and were a calculated act; more have come from miscalculations.

I doubt whether the leaders of international communism misunderstand or miscalculate our posture today. They must not do so tomorrow. The prevention of misunderstanding is a continuing task. We must not slip into an attitude of complacency or tolerance. *the Soviet should have no* ~~so that~~ At any given moment ~~they may have~~ doubts about our intentions. *They should not* must not be allowed ~~or seem~~ to feel that ~~they can use~~ the threat of nuclear blackmail *could be used to* ~~to~~ push us out of any positions anywhere in the world that are vital to our security, on the theory that any ~~one of~~ such positions ~~is~~ not worth the risk of a nuclear conflict.

Certainly until a system of controlled disarmament can be devised, there should be no relaxation in the field of our national defense as the primary deterrent to the danger of communist aggression. Gaps in any important military field would be a source of peril.

Today the Soviets with a Gross National Product and an industrial capacity less than one-half of ours are nevertheless allocating to the national power sector of their economy, including military hardware and industrial plant for war purposes, an effort roughly equivalent to ours.

If they continue their industrial growth rate, at some eight to nine per cent as is the case at present, the Soviets will be able, if they choose, substantially to increase their military effort.

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This country has the capacity to meet this military challenge and prevent the Soviets from gaining what they could consider to be a useable margin of military superiority over us. We must also exhibit the continuing will to do so and to do it for the foreseeable future.

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If all of these conditions I have cited are met, and they are not easy ones, I would agree that the danger of nuclear war might well recede in the decade we are entering.

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Then, however, a grave danger would remain in the slow attrition of the power position of the Free World because of the very rapid rate of economic growth in the Soviet Bloc.

The secret of Soviet economic progress is simple. With their lower living standards and much lower production of consumer goods, they plow back into investment a large and growing share of their total annual production. The Kremlin leaders direct about 30 percent of GNP into capital outlays, while we in the United States are content with 17-20 percent.

The commanding role of investment in Soviet economic growth is dramatically illustrated by their Seven Year Plan, which runs through 1965. Capital investment in industry for the year 1959, the initial year of the plan, will be approximately equal, measured in dollars, to industrial investment in the United States.

Furthermore, the Soviets absolute volume of investment in such productive areas as the iron, steel and nonferrous industries, as well as in machinery manufacturing, will be substantially greater

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than that of the United States.

These massive investment expenditures are being fed into an industrial system whose output in 1958 was only about 40 percent of the United States. Under such high pressure fueling, the Soviet industrial plant can hardly fail to grow considerably faster than that of the United States.

On the other hand, commercial investment comparisons in the two countries contrast sharply with the patterns of industrial investment. Commercial investment, which includes stores, shopping centers, office buildings and the like, has been absorbing over 6 billion dollars a year in the U.S., and only two billion in the USSR.

At the same time, we already have such large retailing facilities, that they are utilized at a very low rate of capacity. There are about 9 million people engaged in the field of retail trade in the U.S., compared with only 3 million in the USSR.

Let me give you another example -- our housing investment is roughly twice that of the Soviet, even though living space per

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capita in the U.S. is already four times that of the USSR.

For a contestant engaged in a vital economic race with a lean and well-muscled opponent, we persist in carrying a prodigious burden of fat on our backs.

A major thrust of our economy is directed into the production of the consumer type goods and services, which add little to the sinews of our national strength. The major thrust of Soviet economic development and its high technological skills and resources are directed toward specialized industrial, military and national power goals.

New lead on p. 10

One of these national power goals, which has been aided by Soviet postwar industrial expansion, ^{is reflected in} ~~has been the~~ communist program in Free World underdeveloped countries. In these newly emergent and fragile nations, the Kremlin leaders have been advancing their cause by a combination of economic penetration, political warfare, and subversion.

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Then, however, a grave danger would remain in the attempt at the slow attrition of the power position of the Free World by a combination of economic penetration, political warfare, and subversion.

The basic strategy of international communism, with its primary emphasis on measures short of war, has remained remarkably unchanged since the death of Stalin. So too have its objectives.

These were never more bluntly stated than in Khrushchev's recent speeches.

Before Truman Hall and World Affairs Council in Los Angeles
[*Obviously*] referring to the phrase [attributed to him,] "We will bury you," he explained *20 September* last August *during TV* that when he said that communism would be the graveyard of capitalism, he did not mean that communists would take shovels and start digging; "History," he said, "would take care of capitalists." They too, he suggested, would become museum pieces, and added that "If there were a God and he could act, he would take a good broom and sweep you out."

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Let us have a look at the brooms Khrushchev proposes to use.

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First, economic penetration of the uncommitted world.

Quick industrialization is the goal of the new and emerging countries, as well as of many of the older countries which have been backward industrially. It is no answer to such aspirations to suggest that the type of industrialization they want is premature, unwise or over-costly. They will continue to seek it.

The example of the Soviet Union attracts them. Here they see a nation which, in the course of 30 years since their revolutionary growing pains ended about 1928, has achieved second place in the world industrially; and this from a relatively low base, sixth or seventh among the industrial states of the world and despite a devastating intervening war between 1941 - 1945.

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Much of the uncommitted world attributes this quick industrialization to the rigid controls incident to communism. Here they seem to find an answer to the chaotic political conditions in their own domestic situations. To many of the leaders of these countries individual freedom and human liberty are secondary to material progress.

They do not feel they can aspire to anything like the sophistication of our own American industrial growth. They will settle for much less but they want it quickly. They are reconciled to the drastic remedies the Soviets may prescribe.

The fact that several countries which have dabbled with the Soviet program for economic betterment are beginning to turn away from it today is not generally known. Nor do they realize that Soviet industrial growth is based on, and in many areas copied from, the industrial development of the West.

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They want results. They want them now. The Soviet promise them the moon. They understand full well that the Soviets first got a rocket to the moon and some of them are deluded by the belief that the Kremlin can also give them a miraculous industrial transformation. Soviet propaganda tells them this is so and will deliver the goods. It is a potent weapon. You can expect to see the Soviets continuing to use it in the four corners of the earth.

In several cases they have been able to get the jump on us, partly because of the procedures required under our laws and partly because we rightly have never conceived this to be a competition to see who can give the most the quickest.

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14.

The Soviets, abetted by the Chinese Communists and their European Satellites, can easily maintain their present rate of aid and trade and in the coming decade they may well divert larger absolute amounts to woo the uncommitted areas of the world. As the Soviet and Chinese Communist industrial production advances, the threat of the spread of communism through trade and aid into uncommitted areas of the world will be proportionately increased.

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Another broom which international communism proposes to use against the Free World is political warfare.

Here they have an aggressive campaign based on a series of very positive programs with political, economic and ^{cultural} popular objectives. It involves the radio and other means of mass communication, as well as the written and spoken word; subtle political intrigue based on the control and manipulation of communist parties and communist fronts on a worldwide basis.

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It includes the use of various ^{front} "cover" organizations which pretend to represent youth, labor, professional groups and veterans. They become the agencies for spreading communist doctrine throughout the Free World. In their subversive arsenal, they also have organizations which use the slogans of "peace", friendship and coexistence.

This challenge is being pressed forward under the growing threat of Soviet industrial, scientific and technical advances and under the cover of the Kremlin's posture of coexistence.

To meet this threat we must understand it. To penetrate the subtleties of the Soviet political, economic, and psychological drive is harder to do than to understand the military threat. Weapons of war are visible, tangible, and comprehensible. The impact of an idea, of a subversive political movement, of a disguised economic policy is more subtle.

International communism is a ruthlessly proselytizing force. It seeks to make converts of men and women wherever the opportunity permits; just as it does not hesitate to make "convicts" of them as it has done in Hungary. It has lost none of its faith in its worldwide mission, as outlined by Lenin and Stalin and vigorously proclaimed by Khrushchev as he left our shores a few weeks ago. This mission continues to be the domination of the entire Free World, with primary emphasis today on the new and uncommitted nations.

The communists have no reason to be confident that they have an adequate answer to our military retaliatory power. They do feel, however, that they still have the ability to close off their own frontiers, their air space and their rigidly controlled society from retaliation through our use of the type of political action they themselves direct against the world outside the Communist Orbit. They have their Iron Curtains not only on their frontiers but within the country. They

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even try to draw down this Curtain within the minds of their own people.

Recently we see some evidence here and there of a slight raising of their curtain against ideas from outside. If this were to continue and develop it would be one of the most encouraging signs in our relations with the USSR. It would be an act, a deed, as contrasted with wordy pronouncements about coexistence.

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A third broom Khrushchev proposes to use subtly against us is the penetration and subversion of governments which refuse to "cooperate" with Moscow or Peking. A classical example here was Czechoslovakia, ^{more than} ten years ago. The same techniques are used today. //

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Popular front governments are still being planned in Moscow for several countries which today have close relations with us.

"Nationalism" as a slogan for the breaking of the ties of friendship between us and the countries of this Hemisphere was the policy line given the Latin American communist leaders who attended the 21st Party Congress in Moscow last February. Details for the execution of this policy were given these leaders and some of the fruits of this policy can be seen today in Panama, Cuba and elsewhere in this Hemisphere.

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It was Moscow's desire to move very secretly in this field and not to allow its hand to be shown. Somewhere between there and Peiping the signals seem to have been fouled up. The Chinese Communists, who have the same objectives as the Soviets, are yet acting in their own area of particular interest with a blatency as respects India, Japan, Indonesia, Burma, *Laos and Tibet* ~~and other countries of~~ Asia, which has aroused the nationalistic feeling against Peiping and must make the professional operators in the Kremlin cringe.

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In these comments, I have tried to give some idea of the nature and dimensions of the Soviet challenge in the military, political, and economic fields.

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This I have targeted to the issue as to whether a nuclear military stalemate which possibly might lessen the immediate danger of war would or would not lessen the over-all communist threat. My conclusion is that the threat would remain and that, if the Soviet military requirement should lessen, the added attention the Kremlin could give to its non-military program might even add in some respects to the danger of the policies the Soviet may adopt under "peaceful coexistence" as the Kremlin now preaches it.

Certainly we have not answered the challenge if we limit ourselves merely to providing the resources needed to meet military appropriation and the like.

We are faced with the growing industrial and military power of the Sino-Soviet Bloc and their dedication largely to national power objectives. We have also to take into account the effective programs in the non-military fields to undermine the strength of the Free World. II

These facts should bring us to a sober appraisal of the best means of marshalling our very great assets and capabilities - in concert with our like minded friends and allies. Today we have great industrial and, in most fields, technical superiority. Are we applying this superiority in the proper way to the proper ends?

22.

Secretary Herter, in an address to the Foreign Trade Council on November 17, eloquently gave the answer to this question.

He said:

"We have, of late, been too absorbed, I feel, in the mere enjoyment of a prosperous life behind our defensive curtain of nuclear power. We must realize instead that the fateful competition with communism has placed a first claim on the energy and interests of us all. That means subordinating our private interests to the paramount public interest. It also means using our economy less for the things which do not really matter, and more for the things which do -- for the uses which would train and inform our minds, promote the health of our society and keep our country free."

There is no group of men who could have more influence than you in reassessing the implication of the course of our economy as related to that of the Soviet Union.

You could start the move to make this society of ours more responsible to the challenges of the day.